



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

May 22, 2008

The Honorable Clarence Longworth, Mayor
City of Loyall
306 Carter Street
P.O. Box 1060
Loyall, Kentucky 40854

RE: Examination of City receipt and deposit activity

Dear Mayor Longworth:

Our office received a concern from the City of Loyall (City) Mayor and Treasurer related to the receipt and deposit of property taxes, franchise fees, business licenses, rent, and other various fees. Anomalies found by the current City Mayor, while reviewing City financial records shortly after taking office in January 2007, ultimately led City officials to request this office to perform an examination of specific financial activity. We have completed our examination and presented below are our findings and recommendations.

Documentation provided by the City and examined by this office included City financial receipt books; deposit ticket books; monthly bank statements; Fire Inspection reports; Property Tax rolls for 2004, 2005, and 2006; and various other City records. We also interviewed the current and former City mayor and clerk to gain an understanding of various issues including the City receipt and deposit process.

To reconcile various City property tax and other receipts to bank deposits, the documentation provided to this office by the City was entered into electronic spreadsheets. The data entered into these spreadsheets documents the transaction information from the City's copy of each receipt ticket retained in the receipt ticket books, the information on the yellow carbon copy of the City's duplicate bank account deposit tickets, and the corresponding monthly bank account statements that identifies the amount deposited into the City's various bank accounts.



For the period examined, reconciliations of City financial activity were completed using all documentation from the inception of the receipt process to the deposit of the transaction amounts into the City's various bank accounts. The reconciliation process attempted to agree each individual receipt ticket found in the receipt ticket books to an amount on the deposit tickets and then agreed the deposit ticket to the City's bank accounts. This process was then reversed to reconcile deposits documented in the City's monthly bank statements to the individual line entries found on the corresponding deposit tickets and then agreed the amount to the individual receipt tickets. This procedure was performed to ensure an accurate accounting of all deposits entered into the City's accounts.

The reconciliations performed of City financial activity identified specific discrepancies throughout the period under examination. Ultimately, approximately \$21,100 of City funds documented on receipt tickets were not deposited in City bank accounts. The amount of the \$21,100 discrepancy was identified as a result of examining documentation the City provided to this office. The discrepancy amount could change should the City determine that additional financial records exist.

After completing this examination of City records and identifying over \$21,100 in discrepancies between City receipt tickets and deposits made in to City accounts, we contacted the CPA who performed the City's financial statement audits for the period examined. The CPA provided this office with reconciliations of total receipts to deposits for fiscal years 2004, 2005, and 2006. During the fiscal years 2005 and 2006 the CPA was provided a detailed listing of receipts along with corresponding receipt numbers. After careful review of the CPA's reconciliations, we found that the detailed listing of receipts that was totaled and reconciled to total bank deposits for the fiscal years 2005 and 2006 were incomplete. Sufficient detail was not provided for the fiscal year 2004 reconciliation to determine whether the receipts listing provided to the CPA was complete. We found certain transactions had been omitted from the receipt ticket listings provided to the CPA and therefore no significant variances between total receipts and total deposits were identified by the CPA for the fiscal years audited.

In addition to the \$21,100 discrepancy discussed above, 43 City receipt tickets totaling over \$6,248.35 had "void" written on the receipt. Though it appears that many of these receipts may represent a voided transaction, it could not be determined whether all were legitimately voided receipt tickets.

The information written on voided utility receipts was inconsistent. For example, 13 receipts had no dollar amount written on the voided receipt ticket, eight voided receipt tickets had no employee initials identifying who prepared the voided transactions, and 31 voided receipt tickets provided no explanation or need to void the receipt. Also, different copies of the voided duplicate receipt forms were retained in the City receipt ticket books. In some instances, the original receipt ticket was in the receipt ticket book and in other instances the yellow carbon copy of the receipt ticket was retained.

Further, four instances totaling \$559.80 were identified of deposit tickets written to include cash as part of the deposit; however, images of the deposit tickets provided to the City within the monthly bank statements illustrate that these deposit tickets were altered to reflect checks being deposited instead of cash. In the first of the four deposit tickets altered, we found a duplicate deposit ticket had been revised after the deposit was made to agree to the original deposit ticket retained in a different deposit ticket book.

In addition to the discrepancies identified above, procedural and control weaknesses were also found related to the City's financial activity. The findings and recommendations are summarized below.

- City documentation provided to this office was insufficient to determine the total amount of monies due to the City from City police citations, privilege licenses, City stickers, and facility rentals. The City did not reconcile police citations issued to payments received. Documentation provided by the City for facility rentals, City stickers, and privilege licenses were primarily the receipts recorded in the receipt ticket books and manually numbered carbon copies of city stickers and privilege licenses. The City was able to provide a listing of business licenses issued for only calendar year 2004. Business license listings were not provided to this office for the remainder of the examination period.

We recommend the City reconcile actual receipts to corresponding tickets, licenses, or stickers on a monthly basis. The City should establish a procedure to collect outstanding amounts due to the City. We also recommend the City use pre-numbered documents when issuing tickets, licenses, and stickers. Pre-numbered documents reduce the likelihood of unauthorized transactions and will assist the City in identifying missing records. All pre-numbered forms should be accounted for and voided documents should be retained, initialed, and dated by a supervisor to indicate approval to void a transaction. The purpose for voiding a receipt should also be documented.

- Receipts deposited into City bank accounts were recorded on deposit tickets by referencing an individual or company name rather than referencing the receipt number and payment amount.

We recommend the City reference City receipt tickets by receipt number and payment amount on bank deposit tickets. By following the recommended process, receipts could easily be reconciled to City bank account deposits.

- Monthly Bank reconciliations did not include reconciling deposits to City receipt ticket books. By not reconciling deposits to the original book of entry, the City is not taking the necessary actions to ensure a full and proper accounting of all City receipts.

We recommend the City reconcile bank deposits to City receipt ticket books on a monthly basis. Furthermore, we recommend the City investigate any discrepancies found during this process to ensure all receipts recorded in the receipt ticket books are appropriately deposited into City accounts.

- City financial controls did not require a voided receipt to be signed and dated by a supervisor to validate that the transaction was voided. Furthermore, City personnel did not consistently document the purpose for voiding receipts.

We recommend the City account for each pre-numbered City receipt ticket at least monthly. This process could be performed during a monthly reconciliation. The City should investigate any exceptions noted while accounting for the pre-numbered receipt tickets. We further recommend that documentation related to voided transactions be clearly identified as “VOID” with the date and signature of the employee voiding the transaction and the supervisor’s signature and date authorizing the action, as well as, providing the purpose for voiding the transaction.

- Throughout the examination period, City receipt ticket books documented various individuals who received tax receipts or other funds on behalf of the City. One of these individuals was the spouse of the City Clerk who was not employed by the City. On a policy statement from the City’s bonding company, the City Clerk’s spouse was listed as the Assistant City Clerk; however, other City records do not indicate this individual was an employee of the City.

We recommend the City establish and implement a policy to specify those positions authorized to receive funds on behalf of the City. The City should ensure that all persons authorized to receive funds are City employees and are appropriately bonded. We further recommend that the City secure its offices to ensure access to City receipts is limited to only authorized personnel. Finally, we recommend the City develop a policy to ensure access to the receipts drawer be restricted to the employee assigned to the drawer so that a specific employee is accountable for the financial activity associated with a specific drawer. If an employee is no longer working at a receipts drawer during the day, procedures should be developed to close out and reconcile the drawer, before another employee is assigned to work at that drawer.

- Current City personnel stated that un-deposited receipts were found lying around the City Clerk's office when the new administration took office in January 2007. Three checks in total were found. Two checks were forwarded to Harlan County Works, while the third check written to the City for \$47.68 from the Commonwealth of Kentucky dated December 14, 2005, had expired and could no longer be deposited into the City's accounts. While examining the City's receipt ticket books, we found no such receipt ticket recorded for this amount from this payee.

We recommend the City maintain receipts in a secure location such as a vault or lock box until such time as authorized personnel can deposit the funds into an appropriate City account. These deposits should be made on a daily basis to reduce the risk of theft or loss.

- In some instances, receipt tickets appeared to be written months after the receipt was actually received by the City. Duplicate receipt tickets were also identified that were written within days or weeks of each other, but the deposit associated with the receipts was made only after the second receipt was written. This indicates that receipts were not appropriately accounted for and were not deposited in a timely manner.

We recommend the City implement a policy to ensure a daily reconciliation of receipts at the close of business. This reconciliation should be documented. The daily reconciliation should be used to facilitate the monthly reconciliation. The monthly reconciliation process should include the daily calculator tapes for City receipts produced at the end of each day, receipt documents, deposit tickets, and the City bank account statements. Documents from throughout the receipt process should be used to perform the monthly reconciliations. This process should strengthen the City's assurance that all receipts are properly accounted for.

- The City also provided our office with documentation of the City's Petty Cash account. These records were incomplete; therefore, we were unable to determine the amount of funds that replenished or were disbursed from the Petty Cash account or the balance at any given time during the period examined.

We recommend the City require a receipt for each purchase and maintain a ledger of all petty cash account activity including the daily account balance.

Mayor Longworth
May 22, 2008
Page 6

We have referred this matter to the Office of the Attorney General (Office) to determine whether further investigation is warranted.

If you have any questions regarding this letter, please contact me at (502) 573-0050. Thank you, in advance, for your assistance in resolving these matters.

Sincerely,

A handwritten signature in dark ink, reading "Brian Lykins". The signature is written in a cursive style with a large, stylized "B" and "L".

Brian Lykins, Director
Division of Examination and Information Technology